

Message Text

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PAGE 01 KUWAIT 03369 151000Z

22

ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 FEA-01 /095 W

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R 141333Z JUL 76

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 5773

INFO AMEMBASSY ABU DHABI

USINT BAGHDAD

AMCONSUL DHAHRAN

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

UNCLAS KUWAIT 3369

E.O. 11652: N/A

TAGS: EGEN, EFIN, KU

SUBJ: KUWAIT FY 1976/77 BUDGET SUBMITTED TO NATIONAL ASSEMBLY

REF: (A) KUWAIT 1679, (B) KUWAIT A-73

1. GOK HAS SUBMITTED ITS STATE BUDGET FOR 1976/77 (FY NOW RUNS FROM JULY 1 TO JUNE 30) JULY 10 TO NATIONAL ASSEMBLY FOR ITS APPROVAL. ASSEMBLY NOW PLANS TO ADJOURN IN JULY AND, THOUGH SOME REDUCTION IN EXPENDITURE HAS BEEN CALLED FOR, NO MAJOR ALTERNATIONS ARE NOT EXPECTED. FIGURES PROVIDED IN PRESS ARTICLES ARE INCOMPLETE, BUT ACCORD GENERALLY WITH THOSE IN REF A.

2. TOTAL EXPENDITURE FISCAL YEAR PERIOD IS ESTIMATED AT KD1,157 MILLION (APPROX KD 320 MILLION OVER THAT OF 1975/76) (KD 1 EQUALS US \$3.50). FIGURES INCLUDE BOTH ORDINARY EXPENDITURE UNCLASSIFIED

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PAGE 02 KUWAIT 03369 151000Z

FOR GOVERMENT DEPARTMENT S AND DEVELOPEMENT EXPENDITURES.

LATTER TOTALS KD 343 MILLION, 15.8 PERCENT OF TOTAL REVENUE. TOTAL REVENUE FOR SAME PERIOD ID KD 2,223 MILLION, OF WHICH 97.2 PERCENT IS OIL REVENUE (KD 1,926 MILLION FOR CRUDE SALES; KD 146.8 MILLION FOR NATURAL GAS). ARTICLE ALSO NOTED THAT GOK BUDGET RECEIVED TOTAL OF KD 424 MILLION AS A RESULT OF DECEMBER 1976 NATURALIZATION OF KUWAIT OIL COMPANY.

3. BUDGET SURPLUS FOR 1976/77 THUS AMOUNTS TO APPROX KD 1,015 MILLION. SURPLUS COULD BE ACCOUNTED FOR IN SEVERAL ITEMS: ALLOCATION TO GENERAL RESERVE (LAST YEAR'S BUDGET ALLOCATED KD 910 MILLION); VARIOUS SPECIAL PURPOSE EXPENDITURES NOT USUALLY INCLUDED IN MAIN BUDGET (MUNICIPALITY, UNIVERSITY, ETC-ARTICLE NOTES TOTAL OF KD 14 MILLION FOR THESE ITEMS IN CURRENT BUDGET.); AND DEFENSE, HOUSING AND FOREIGN AID EXPENDITURES. TYPICALLY, OVER 50 PERCENT OF TOTAL EXPENDITURES REPRESENT ALLOCATION TO STATE RESERVE.

4. IN STATEMENT ACCOMPANYING BUDGET SUBMISSION, GOK FINANCE MINISTER AL-ATEEQI PREDICTED THAT GOK WOULD BE FACEING BUDGET DEFICIT "WITHIN FIVE YEARS". MINISTER COMPLAINED ABOUT LACK OF PUBLIC

SPIRITEDNESS OF KUWAITI CITIZENS, PARTICULARLY THEIR UNWILLINGNESS TO "SHOULDER THE DUTIES AND RESPONSIBILITIES OF SOCIETY". ATEEQI CALLED FOR TAKING STRONG MEASURES TO FORCE PUBLIC PARTICIPATION, AND "DID NOT RULE OUT" POSSIBILITY OF IMPOSITION OF VARIOUS FORMS OF TAXATION, NOTING THAT, WHILE NOT FINANCIALLY JUSTIFIED AT PRESENT TIME, THERE WERE "OTHER CONSIDERATIONS" TO TAKE INTO ACCOUNT.

5. COMMENT: EMBASSY IS UNABLE TO COMMENT ON HOW SERIOUS AL-ATEEQI IS IN PRQOSING NEW TAXATION. CONTINUED INCREASES IN OIL REVENUES, PLUS NATIONALIZATION OF KOC, HAVE PRODUCED RATHER HEFTY BUDGET SURPLUS WHICH WOULD MAKE CASE FOR TAXATION DIFFICULT FOR GOK TO ARGUE. HOWEVER, MINISTRY OF FINANCE HAS SENT QUESTIONAIRE TO FOREIGN BUSINESS FIRMS WORKING IN KUWAIT INQUIRING AS TO NATURE OF THEIR WORK AND AMOUNT OF PROFIT. MINISTRY AND BUSINESS SOURCES INDICATE THAT ACTION IS IN PREPARATION FOR RE-IMPOSITION OF 1955 LAW TAXING PROFITS OF FOREIGN FIRMS. MINISTRY LEANINGS TOWARDS SUCH PROPOSAL (EVEN THOUGH ACTUAL UNCLASSIFIED

UNCLASSIFIED

PAGE 03 KUWAIT 03369 151000Z

IMPOSITION HAD NOT YET TAKEN PLACE) IS INDICATIVE THAT IT IS SERIOUSLY CONSIDERING INTRODUCTION OF TAXATION SYSTEM HERE. TAXATION PROPOSAL MAY ALSO BE REFLECTION OF CONCERN OVER LOWER OIL PRODUCTION AND SALES.
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